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MAFUBE LOCAL MUNICIPALITY
OFFICE OF THE MUNICIPAL MANAGER

RE: MUNICIPALITY INTENTION TO SUBMIT ANNUAL FINANCIAL STATEMENTS LATE
PURPOSE

To notify and request for MEC approval for submission of the Annual Financial Statement (AFS) for the 2016/17 financial year on the 28 February 2018.

BACKGROUND

Legislative requirements for annual financial statements are the following:

1. Section 126 and 122 of the Municipal Finance Management Act, number 56 of 2003 indicates that a municipality must prepare and submit annual financial statements within two months after the end of the financial year.
2. Section 131 of the Municipal Finance Management Act, number 56 of 2003 states that a municipality should address the issues raised by the Auditor General in an audit report. The municipality obtained a disclaimer of audit opinion during the 2016/17 financial year with assets being one of the disclaimer paragraphs.
3. Furthermore, Generally Recognized Accounting Principles 1 indicates that conditional assessments of assets should be done annually.

DISCUSSIONS

4. Matube Local Municipality required assistance with the compilation of a GRAP compliant Fixed Asset Register (FAR) and procedures for all infrastructure assets including water, sanitation, electricity and roads as the municipality currently has no capacity and technical expertise to produce a credible register required in terms of GRAP.

(a) The infrastructure assets were currently not being resolved by the current PSP as it was not in their original scope of work. The assets to be verified constitutes mostly of old projects which were completed prior to 2007.

5. The municipality has endured disclaimer audit opinions from the AGSA in the past years mainly due to the inability to have a credible FAR.

(a) The municipality has taken a decision to engage the services of professional engineering and accounting service provider to assist with the compilation of GRAP compliant FAR through the assistance of COGTA.

(b) For the FAR to be credible product; the office of the AGSA will be constantly engaged to give guidance and advice on the aspects that will be considered critical to ensure that the municipality does not fall into a disclaimer of opinion again.

6. The main reason resulting to the late submission is the Fixed Asset Register of which infrastructure assets are a main component, which the surveying thereof will not be completed by 31 August 2017. This results mainly due to;

(a) The appointment of the service provider late;

(b) The service provider has indicated that it will require at least 10 weeks to produce a credible FAR.

7. The service provider to assist the municipality was also appointed late and has indicated that it will require time to compile a credible set of Annual Financial Statements.

8. Due to the above challenges, the municipality has been left with two options:

(i) To submit the AFS on the 31st August 2017 as legislated without a credible set of FAR, without correcting all other prior year matters raised by the Auditor General and with limited time on the compiler of AFS and risk a chance of a repeat Disclaimer Audit Opinion; or

(ii) Submit AFS on the 28 February 2018 having performed a complete survey of the infrastructure assets and produced a credible FAR and also corrected all other material misstatements as identified by the Auditor General in the prior years and stand a chance of getting an improved Audit Opinion.

LEGAL IMPLICATIONS

9. The office of the Auditor General will raise a finding under Compliance that Annual Financial Statements of 2016/2017 were submitted late.

RECOMMENDATIONS

10. To notify and request the approval of the MEC to submit the Annual Financial Statements for 2016/2017 on the 28 February 2018 as per section 133 of the MFMA.

I hope you will find the above in order.

Yours faithfully,

Mr M Notsi

Municipal Administrator